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Progress report of the Executive Director, a.i., on the activities of UNOPS*

Summary

The present report is submitted pursuant to Executive Board decision 2005/36 of 9 September 2005. The progress report provides an update on progress achieved in the implementation of action to restore the viability of the United Nations Office for Project Services and an update on the projected 2005 year-ending financial results.

Elements of a decision

The Executive Board may wish to take note of the progress report.

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Introduction

1. In its second regular session of 2005, the Executive Board requested the Executive Director of the United Nations Office for Project Services (UNOPS), through decision 2005/36, to carry out expeditiously a set of reform measures aimed at restoring the financial viability of the organization. The present report is submitted to the Executive Board through the Management Coordination Committee (MCC) of the United Nations Office for Project Services.

I. Status of implementation of Executive Board decision 2005/36

2. In response to Executive Board decision 2005/36, UNOPS submits a revised biennium budget projection (annex 1.). The projection responds to the challenges the organization faces to restore its financial viability. The biennium projections respond to four pressing challenges: (a) to streamline client portfolios in line with Executive Board decision 2005/36; (b) to reduce administrative expenditures; (c) to realign the organization to respond more efficiently to client demand; and (d) to replenish the operational reserve. An update on the status of the implementation of Executive Board decision 2005/36 is also provided.

3. The measures proposed in the UNOPS action plan (DP/2005/39) and recognized in Executive Board decision 2005/36 included the relocation of UNOPS headquarters and rationalization of its support services structure into a global service centre. Relocation offers were received from five member states interested in hosting a restructured UNOPS. UNOPS communicated to interested member states a schedule of requirements and conducted site visits. Site visits were not mandatory and did not affect the final evaluation of offers received. The deadline for the submission of offers was set at 12 December 2005.

4. The offers were evaluated against the following criteria: (a) rapid availability of rent-free office space; (b) fringe benefits to support timely implementation of the action plan; (c) abatement of annual running costs; (d) logistical factors and local labour market conditions; and (e) cost of living.

5. The evaluation concluded that, from a business case perspective, UNOPS would relocate its current headquarters functions and Europe-based operations to Denmark (Copenhagen) in the first half of 2006. The relocation grant provided for by the Government of Denmark will cover all expenditures associated with the relocation and the transition programme.

6. The relocation and associated transition measures will permit UNOPS, during 2006, to regain efficient use of its human and administrative resources. The proposed course of action provides for a sharp rise, in 2007, of return on administrative resources resulting from the three-pronged strategic direction that UNOPS will take: (a) fixed-cost reduction; (b) enhanced operating efficiency; and (c) restoration of the overall business prowess of the organization. (Since 1998, with the exception of 2003, fixed costs have exceeded revenue each year despite considerable growth in business volume.)

7. The strategic direction of the biennium budget will provide for savings in the UNOPS fixed-cost structure of $10 million in 2006 and a further $10 million in 2007. This requires: (a) relocation by mid-year of corporate service and headquarters units, whereby all corporate service units will be consolidated into one global service

centre; (b) rationalization of the European office network into the new UNOPS headquarters location and consolidation of the UNOPS presence in Africa; (c) consolidation of the emergency response and disaster preparedness capability; and (d) implementation, over 2006-2007, of a business process improvement programme. These measures will lead to a 25 per cent reduction in managerial posts and an estimated 15 per cent reduction of programme management staff on completion of the client portfolio rationalization.

8. The costs associated with the relocation, transfer of staff and non-renewal of contracts component of the overall transition programme are estimated at $6.33 million in 2006 and $1 million in 2007. The transition programme costs will be absorbed by the grant provided for by the Government of Denmark.

Reducing the fixed-cost base, adjusting portfolio delivery and restoring the operational reserve

9. During the first quarter of 2006, UNOPS will proceed with a comprehensive review of its business portfolio aimed at streamlining the delivery of its services; wherever feasible, service delivery will take place at the country level. This activity will precede the subsequent rationalization of the high fixed-cost regional client division structure.

10. The level of delivery under the project portfolio of services is projected to reach $781 million in 2006 and to level off at $612 million in 2007. The project portfolio delivery volume is adjusted to reflect the gradual phase-out of current lower value-added service lines producing marginal to negative returns, in accordance with the provisions contained in the Executive Board decision 2005/36. While the impact of the portfolio rationalization is expected to remain modest during 2006, it will accelerate the following year. Hence, projections account for an estimated 20 per cent downward adjustment for portfolio delivery in 2007.

11. The overall financial performance is expected to improve. All costs for the transition programme and the relocation are covered under the relocation grant. The organization will thus generate income of $6.5 million in 2006, and targets a similar level of income generation in 2007. It is noteworthy that the projected 2007 income level would be achieved while overall delivery levels are reduced by 20 per cent. The operational reserve will be replenished accordingly.

Adjusting service pricing and streamlining business processes

12. Activity-based costing pilots will be introduced during 2006 to price service delivery more accurately, and a new UNOPS pricing policy will be instituted by mid-2006. Similarly, UNOPS will engage in a revision and adjustment of its most basic business processes to enhance process efficiency and thus reduce costs.

II. Risk assessment and contingency planning during 2006-2007

13. The following contingency measures will be put in place to monitor and meet the business and financial projections:

(a) The new global service centre will be built gradually by functionality. A contingency overlap per functionality is foreseen to permit fallback onto existing headquarters functionality should the new service centre incur delays.

(b) If the long-term lease of the current New York premises cannot be terminated on acceptable terms, UNOPS will make every effort to sublease available office space for the remaining lease period thus limiting its financial exposure.

(c) If business managers with delegated authority overspend on administrative expenditures or do not meet their revenue targets in the first quarter of 2006, budget authority will be centralized.

(d) Conservative business acquisition ratios underpin the projections to mitigate, inter alia, possible market volatility or shrinkage.

III. 2005 estimated year-to-date results and year-end financial projections

Business acquisition

14. Business acquisition as of 29 December 2005 stood at $1.01 billion. This is a record level in the history of UNOPS and a continuation of the upward trend recorded since 2004.

Project delivery and income (annex 2)

15. As of 4 December 2005, revenue from project implementation services and revenue from the provision of services were recorded at $65.55 million. Project delivery reached a record level of $822.52 million. Revenue already exceeded the Board-approved $53.77 million level. The year-end delivery projection is expected to reach $835 million. This would bring total UNOPS revenue to $55.70 million from project implementation services and $9.46 million from services-only revenue, together with revenue from interest and rental of $2.20 million.

Administrative expenditures

16. Estimated administrative expenditures for the period 1 January to 4 December 2005 amount to $53.83 million. The year-end projection is for expenditures to reach $63.94 million.

17. The higher-than-anticipated expenditure level is primarily attributable to additional expenditure incurred by the UNOPS Afghanistan Implementation Facility (APIF), which grew rapidly during the course of the biennium and now contributes approximately 45 per cent of revenue earned under the project portfolio of services.

Level of the operational reserve

18. The Board-approved 2005 budget foresaw a net replenishment of the UNOPS reserve at $2.91 million. As at 4 December 2005, the year-end forecast of net income from ongoing operations was estimated at $3.42 million.

Annex 1. 2005 year-end financial projection

Projection (In millions of dollars)	Board-approved 2005 budget [1]	2005 actuals [2] (1 Jan to 4 Dec)	2005 projected [4] (4 Dec to 31 Dec)	2005 projected Year-end
SECTION 1. DELIVERY				
Delivery amount	641.40	822.52	12.48	835.00
SECTION 2. REVENUES AND EXPENDITURES				
Revenue				
Total project revenue	43.52	54.87	0.83	55.70
Total 'service only' revenue	8.44	8.67	0.80	9.46
Other revenue (interest, rental) [3]	1.81	2.02	0.19	2.20
Total revenue	**53.77**	**65.55**	**1.81**	**67.36**
Administrative expenditures (KY001-KY004)				
Salary and benefits [2]	28.00	26.10	5.70	31.80
General and administrative	10.05	19.54	3.49	23.03
Subtotal	38.05	45.64	9.20	54.84
Reimbursement expenditures				
PeopleSoft/Atlas payment to UNDP	3.50	1.94	0.18	2.12
Reimbursement costs	3.91	2.65	0.24	2.89
Subtotal	7.41	4.59	0.42	5.01
Allowance for doubtful accounts	0.70	3.02	0.27	3.29
Change management programmes		0.58	0.22	0.80
Audit observations-related initiatives	4.70			
Total administrative expenditures	**50.86**	**53.83**	**10.12**	**63.94**
Income/(loss) from ongoing operations	**2.91**	**11.73**	(8.30)	**3.42**
SECTION 3. FUND BALANCE ROLL-FORWARD				
Beginning fund balance [3]	**14.46**			**14.46**
Income/(loss) from ongoing operations (and separation)	2.91			3.42
Refund for Oil-for-Food Programme		(11.50)		(11.50)
Refund for World Food Programme		(2.98)		(2.98)
Ending fund balance	**17.37**			**3.40**
Reserve should be 4% of total delivery plus administrative expenditure	***27.69***			***35.96***

Notes

1. January 2005 Executive Board approval.
2. Actual number from consolidated financial statement for 2004.
3. 2005 YTD shows actual revenues for fee-based projects and estimated revenues for fixed-fee projects and service projects.
4. 2005 delivery is assumed to be $835m net of 2004 and 2005 unliquidated obligations. Of this, APIF is estimated to make $400m, resulting in an APIF income estimate of $26.56m and thus, per agreement with the Executive Director, a 2005 APIF administrative budget of $9.8m.
5. Projected 2005 salary and benefits include $2.32m for tax reimbursements and education grants and $2m for after-service health insurance.
6. 2005 salary and benefits includes a deduction of $0.301m for reclassification of administrative budget for Central Asia, Northern Africa and Europe.
7. Allowance for doubtful accounts includes $1.7 m for 2002-2003 Imprest reconciliation, $0.5m for project over-expenditures related to an Eastern and Southern Africa regional office project in Mozambique, $0.3m of project over-expenditures related to Western and Central Africa regional office projects, $0.2m for United Nations Office in Geneva (UNOG) prior year loss due to currency exchange and $0.593 for UNOG.

Annex 2. Financial projections

Financial projections (In millions of dollars)	2006	2007
SECTION 1. DELIVERY		
Delivery amount	781.38	612.26
SECTION 2. REVENUES AND EXPENDITURES		
Revenue from implementation of project portfolio		
UNDP core and trust funds		
UNDP management services agreement		
Other United Nations organization		
Total project revenue	**51.48**	**40.34**
Revenue from 'service only'		
International Fund for Agricultural Development		
Reimbursable service agreements		
Programme of Assistance to the Palestine People		
Total 'service only' revenue	**4.48**	**4.48**
Other revenue (interest, rental)	3.42	4.59
Total revenue	**59.37**	**49.40**
Administrative expenditures		
Salary and benefits	25.29	19.84
General and administrative	18.14	13.56
Subtotal	43.43	33.40
Reimbursement expenditures		
PeopleSoft/Atlas payment to UNDP	3.10	3.10
Reimbursement costs	4.79	4.79
Subtotal	7.89	7.89
Allowance for doubtful accounts	1.50	0.86
Total administrative expenditures	**52.82**	42.15
Income/(loss) from ongoing operations	**6.55**	**7.25**
SECTION 3: Fund balance roll-forward		
Beginning fund balance	**3.42**	**9.97**
Income/(loss) from ongoing operations	**6.55**	**7.25**
Ending fund balance	**9.97**	**17.22**

Note: Transition-related costs will be reimbursed by the Government of Denmark.